CHIEF ALBERT LUTHULI LOCAL MUNICIPALITY

Annual Financial Statements
for the year ended 30 June 2012

General Information

Legal form of entity	Local Municipality
Executive Mayor	Shiba BP
Speaker	Nkosi SM
Chief Whip	Nkosi DP
Mayoral Committee	Mngomezulu MW Mnisi NM Thabethe QG
Councillors	Cindi NR Dludlu ZM Lubede EJ Maduna ME Makene J Makhubelo NV Malaza STQ Masuku BM Mathunjwa KC Mbhele JS McGinn HJ Mdhluli NI Mdluli SL Mhlanga PP Mkhabela EB Mngomezulu MW Mnisi N Mnisi NM Motha JT Motha TW Mthombeni SF Ngubeni A Nkabinde NJ Nkosi AD Nkosi DP Nkosi FE Nkosi GJ Nkosi JS Nkosi MH Nkosi MJ Nkosi NM Nkosi SJ Nkosi SM Nkosi SZ Nkosi VL Ntuli FJ Phakathi FDM Shabangu VS Shiba BP Sikhakhane NB Simelani JD Soko JP Steenkamp ML Thabethe QG Thomo NG Vilakazi J Vilakazi RG Vilakazi VV Zwane TE

General Information

Grading of local authority	Grade 3 Medium capacity
Municipal Manager	Mpila VN
Chief Finance Officer (CFO)	Rampedi MN
Registered office	28 Kerk Street Carolina Mpumalanga 1185
Postal address	Private Bag x719 Carolina 1185
Bankers	Standard Bank of South Africa Ltd
Auditors	Auditor General of South Africa
Attorneys	Guzana Attorneys Macbeth Ncongwane Attorneys Ramathe MJ Attorneys TMN Kgomo Attorneys
Municipal demarcation code	MP301

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Abbreviations

ACIP	Accelerated community infrastructure programme
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretations Committee
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
SDL	Skills Development Levy
SALGA	South African Local Bargaining Council
SARS	South African Revenue Services
UIF	Unemployment Insurance Fund

The annual financial statements set out on pages 4 to 72, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012 and were signed on its behalf by:

VN Mpila
Municipal Manager

CHIEF ALBERT LUTHULI LOCAL MUNICIPALITY
Annual Financial Statements for the year ended 30 June 2012

Statement of Financial Position

Figures in Rand	Note(s)	2012	Restated 2011
Assets			
Current assets			
Inventories	6	130 684	342 136
Other financial assets	7	14 278 263	32 912 498
Operating lease asset	8	34 027	32 149
Other receivables from non-exchange transactions	9	8 282	8 282
VAT receivable	10	335 938	18 911 351
Consumer receivables	11	46 676 128	40 159 549
Cash and cash equivalents	12	9 203 292	9 539 317
		70 666 614	**101 905 282**
Non-current assets			
Investment property	4	18 345 000	12 023 600
Property, plant and equipment	5	725 268 028	718 287 777
		743 613 028	**730 311 377**
Non-current assets held for sale and assets of disposal groups	14	2 797 300	-
Total assets		**817 076 942**	**832 216 659**
Liabilities			
Current liabilities			
Finance lease obligation	15	256 848	87 564
Trade and other payables from exchange transactions	16	50 356 418	19 532 208
Unspent conditional grants	17	5 473 339	24 413 047
Provisions	18	7 969 889	383 374
		64 056 494	**44 416 193**
Non-current liabilities			
Finance lease obligation	15	625 428	120 767
Employee benefit obligations	19	10 606 168	10 580 607
		11 231 596	**10 701 374**
Total liabilities		**75 288 090**	**55 117 567**
Net assets		**741 788 852**	**777 099 092**
Net assets			
Reserves			
Revaluation reserve	20	24 046 763	6 234 263
Accumulated surplus		717 742 089	770 864 829
Total net assets		**741 788 852**	**777 099 092**

Statement of Financial Performance

Figures in Rand	Note(s)	2012	Restated 2011
Revenue			
Property rates	23	21 997 956	24 638 431
Service charges	24	25 550 949	20 771 094
Rental of facilities and equipment		439 075	502 991
Interest - consumers		16 042 871	14 337 670
Fines		856 582	1 428 712
Licences and permits		949 066	690 944
Government grants and subsidies	25	241 587 843	187 163 489
Donation received		9 712 587	6 694 638
Other income	26	1 754 754	1 175 710
Interest received - investment	27	2 641 570	3 017 002
Total revenue		**321 533 253**	**260 420 681**
Expenditure			
Personnel	29	(81 317 292)	(70 363 463)
Remuneration of councillors	30	(11 450 553)	(10 949 035)
Depreciation and amortisation	32	(96 274 403)	(95 213 001)
Finance costs	33	(863 765)	(791 067)
Debt impairment	34	(30 026 486)	(32 109 807)
Repairs and maintenance	37	(26 396 876)	(21 047 545)
Bulk purchases	38	(34 239 162)	(20 878 285)
Contracted services	39	(30 608 746)	(12 404 709)
Grants and subsidies paid	40	3 086 322	(2 618 255)
General expenses	41	(67 814 888)	(52 447 693)
Total expenditure		**(375 905 849)**	**(318 822 860)**
Fair value adjustment	31	1 249 852	4 362 237
Surplus (deficit) for the year		**(53 122 744)**	**(54 039 942)**

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Mark to market reserve	Total reserves	Accumulated surplus	Total net assets
Opening balance as previously reported	6 101 263	9 932	6 111 195	1 064 316 289	1 070 427 484
Adjustments					
Change in accounting policy	-	(9 932)	(9 932)	-	(9 932)
Prior year adjustments - see note 46	-	-	-	(239 411 518)	(239 411 518)
Balance at 01 July 2010 as restated	**6 101 263**	**-**	**6 101 263**	**824 904 771**	**831 006 034**
Changes in net assets					
Deficit for the year	-	-	-	(54 039 942)	(54 039 942)
Changes in revaluation surplus	133 000	-	133 000	-	133 000
Total changes	133 000	-	133 000	(54 039 942)	(53 906 942)
Opening balance as previously reported	6 234 263	-	6 234 263	777 968 247	784 202 510
Adjustments					
Prior year adjustments - see note 46	-	-	-	(7 103 414)	(7 103 414)
Balance at 01 July 2011 as restated	**6 234 263**	**-**	**6 234 263**	**770 864 833**	**777 099 096**
Changes in net assets					
Surplus for the year	-	-	-	(53 122 744)	(53 122 744)
Changes in revaluation surplus	17 812 500	-	17 812 500	-	17 812 500
Total changes	17 812 500	-	17 812 500	(53 122 744)	(35 310 244)
Balance at 30 June 2012	**24 046 763**	**-**	**24 046 763**	**717 742 089**	**741 788 852**

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Cash Flow Statement

Figures in Rand	Note(s)	2012	Restated 2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		45 624 124	24 116 961
Grants		222 648 135	188 604 639
Interest income		2 641 570	3 017 002
Other receipts		13 712 064	10 492 995
		284 625 893	226 231 597
Payments			
Employee costs		(92 767 845)	(81 312 498)
Suppliers		(60 209 123)	(60 392 632)
Finance costs		(730 507)	(726 367)
Other cash item		(57 118 366)	(59 562 182)
		(210 825 841)	(201 993 679)
Net cash flows from operating activities	42	**73 800 052**	**24 237 918**
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(85 208 343)	(38 673 306)
Proceeds from sale of property, plant and equipment	5	202 417	933 583
Proceeds from sale of financial assets		18 742 687	28 550 261
Other cash item		(8 413 525)	(663 067)
Net cash flows from investing activities		**(74 676 764)**	**(9 852 529)**
Cash flows from financing activities			
Finance lease payments		540 687	89 000
Net increase/(decrease) in cash and cash equivalents		**(336 025)**	**14 474 389**
Cash and cash equivalents at the beginning of the year		9 539 317	(4 935 072)
Cash and cash equivalents at the end of the year	12	**9 203 292**	**9 539 317**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand. All figures have been rounded to the nearest Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note First-time adoption of Standards of GRAP.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including production estimates, supply demand, together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

Useful lives of property, plant and equipment and intangible assets

The municipality's management determines the estimated useful lives and related depreciation / amortisation charges for property, plant and equipment and intangible assets. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 19.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Provision for bad debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the fair value of investment property under construction is not determinable, it is measured at cost until the earlier of the date it becomes determinable or construction is complete.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

3Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent to initial measurement property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life**
Bins and containers	10 years
Buildings	
• Elements	10 - 30 years
• Service connections	5 - 50 years

Accounting Policies

1.3 Property, plant and equipment (continued)

Infrastructure	
• Bridges	60 - 100 years
• Civil	15 - 200 years
• Earthworks	100 years
• Electrical	20 - 50 years
• Pavements	3 - 80 years
• Pipeworks	10 - 100 years
• Road drainage	20 - 50 years
• Road furniture	5 - 20 years
• Sewerage	20 - 50 years
Land	Indefinite
Motor vehicles	
• Ambulances	10 years
• Fire engines	20 years
• Heavy duty	7 - 15 years
• Other	3 - 7 years
Office equipment	
• Air conditioners	5 years
• Computer hardware	5 years
• Other	5 years
Plant and machinery	15 - 50 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

Accounting Policies

1.5 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Subsequent to initial measurement intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period, residual value, if any, and the amortisation method for intangible assets are reviewed at each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	2 - 5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the intangible asset. Such difference is recognised in surplus or deficit when the intangible asset is derecognised.

Accounting Policies

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Listed shares	At fair value through surplus or deficit
Loans and receivables	Financial asset measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability, other than those subsequently measured at fair value, initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures all other financial assets and financial liabilities initially at its fair value.

Accounting Policies

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility in the case of a financial asset.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

1.6 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

1.7 Leases (continued)

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Any contingent rents are recognised separately as revenue in the period in which they are received.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Accounting Policies

1.8 Inventories (continued)

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:
- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.10 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Accounting Policies

1.10 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of an asset is the present value of the asset's remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.10 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.11 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service:
Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, free or subsidised goods or services such as housing, cars and cellphones) for current.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard of GRAP requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative, but to make the payments.

1.11 Employee benefits (continued)

Defined benefit obligations

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the municipality recognises past service cost as an expense in the reporting period in which the plan is amended.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement.

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard of GRAP requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

Long term service awards

The municipality has an obligation to provide long-service allowance benefits to all of its employees. According to the rules of the long-service allowance scheme, which the municipality instituted and operates, an employee (who is on the current conditions of service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service.

1.12 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Accounting Policies

1.12 Provisions and contingencies (continued)

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is:

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or nonoccurrence
of one or more uncertain future events not wholly within the control of the municipality; or

A present obligation that arises from past events but is not recognised because:

- it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 44.

1.12 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the amounting policy on impairment of assets as described in accounting policy 1.9 and 1.10.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.13 Revenue from exchange transactions

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.13 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Interest and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.14 Revenue from non-exchange transactions

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to themunicipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised.

1.15 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

Accounting Policies

1.16 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.9 and 1.10. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Accounting Policies

1.20 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.21 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.22 Budget information

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

1.23 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

1.24 Capital commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:
- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

GRAP 104: Financial instruments

Previously the municipality applied IAS 39 and IFRS7. The municipality decided to early adopt GRAP 104 which resulted in the market to market reserve created due to changes in the fair value of the financial asset not being applicable anymore. The market to market reserve have been transferred to accumulated surplus.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2011 is as follows:

Statement of financial position

	2012	2011
Market to market reserve		
Previously stated	-	(9 932)
Adjustment	-	9 932
	-	**-**
Opening retained earnings		
Previously stated	-	(625 247 006)
Adjustment	-	(9 932)
	-	**(625 256 938)**

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

IGRAP 2: Changes in existing decommissioning, restoration and similar liabilities

The interpretation applies to changes in the measurement of any existing decommissioning, restoration or similar liability that is both:

- recognised as part of the cost of an item of property, plant and equipment in accordance with the Standard of GRAP on Property, plant and equipment (as revised in 2010); and
- recognised as a liability in accordance with the Standard of GRAP on Provisions, contingent liabilities and contingent assets (as revised in 2010).

The interpretation addresses how the effect of the following events that change the measurement of an existing decommissioning, restoration or similar liability should be accounted for:

- a change in the estimated outflow of resources embodying economic benefits (e.g. cash flows) or service potential required to settle the obligation;
- a change in the current market-based discount rate as defined in paragraph 52 of the Standard of GRAP on Provisions, contingent liabilities and contingent assets (as revised in 2010) (this includes changes in the time value of money and the risks specific to the liability); and
- an increase that reflects the passage of time (also referred to as the unwinding of the discount).

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality has adopted the interpretation for the first time in the 2012 annual financial statements.

The impact of the interpretation is not material.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

IGRAP 3: Determining whether an arrangement contains a lease

This Interpretation of the Standards of GRAP does not apply to arrangements that are, or contain, leases excluded from the scope of the Standard of GRAP on Leases (as revised in 2010).

The issues addressed in this Interpretation of the Standards of GRAP are:
- how to determine whether an arrangement is, or contains, a lease as defined in the Standard of GRAP on Leases (as revised in 2010);
- when the assessment or a reassessment of whether an arrangement is, or contains, a lease should be made; and
- if an arrangement is, or contains, a lease, how the payments for the lease should be separated from payments for any other elements in the arrangement.

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality has adopted the interpretation for the first time in the 2012 annual financial statements.

The impact of the interpretation is not material.

IGRAP 4: Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds

This Interpretation of the Standards of GRAP applies to accounting in the financial statements of a contributor for interests arising from decommissioning funds that have both of the following features:

The issues addressed in this Interpretation of the Standards of GRAP are:
- the assets are administered separately (either by being held in a separate legal entity or as segregated assets within another entity); and
- a contributor’s right to access the assets is restricted.

A residual interest in a fund that extends beyond a right to reimbursement, such as a right to distributions once all the decommissioning has been completed or on winding up the fund, may be an equity instrument within the scope of the Standard of GRAP on Financial Instruments and is not within the scope of this Interpretation of the Standards of GRAP.

The issues addressed in this Interpretation of the Standards of GRAP are:
- how should a contributor account for its interest in a fund?
- when a contributor has an obligation to make additional contributions, for example, in the event of the liquidation of another contributor, how should that obligation be accounted for?

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality has adopted the interpretation for the first time in the 2012 annual financial statements.

The impact of the interpretation is not material.

IGRAP 5: Applying the restatement approach under the standard of GRAP on financial reporting in hyperinflationary economies

This Interpretation of the Standards of GRAP provides guidance on how to apply the requirements of the Standard of GRAP on financial reporting in hyperinflationary economies (as revised in 2010) in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements in accordance with the Standard of GRAP on financial reporting in hyperinflationary economies (as revised in 2010).

The questions addressed in this Interpretation of the Standards of GRAP are:
- how should the requirement ‘… stated in terms of the measuring unit current at the reporting date’ in paragraph 10 of the Standard of GRAP on Financial Reporting in Hyperinflationary Economies (as revised in 2010) be interpreted when an entity applies the Standard of GRAP,
- a contributor’s right to access the assets is restricted.

The effective date of the interpretation is for years beginning on or after 01 April 2011.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

The municipality has adopted the interpretation for the first time in the 2012 annual financial statements.

The impact of the interpretation is not material.

IGRAP 6: Loyalty programmes

This Interpretation of the Standards of GRAP is not applicable to the municipality.

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality has adopted the interpretation for the first time in the 2012 annual financial statements.

There is no impact of the interpretation on adoption.

IGRAP 7: The limit on a defined benefit asset, minimum funding requirements and their interaction

This Interpretation of the Standards of GRAP applies to all post-employment defined benefits and other long-term employee defined benefits.

For the purpose of this Interpretation of the Standards of GRAP, minimum funding requirements are any requirements to fund a post-employment or other long-term defined benefit plan.

The issues addressed in this Interpretation of the Standards of GRAP are:

- When refunds or reductions in future contributions should be regarded as available in accordance with paragraph 68 of the Standard of GRAP on Employee Benefits.
- How a minimum funding requirement might affect the availability of reductions in future contributions

The Interpretation of the Standards of GRAP addresses accounting by the entity that grants award credits to its customers.

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality has adopted the interpretation for the first time in the 2012 annual financial statements.

The impact of the interpretation is not material.

IGRAP 8: Agreements for the construction of assets from exchange transactions

This Interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of assets in exchange transactions directly or through subcontractors. The construction of assets entered into by entities where funding to support the construction activity will be provided by an appropriation or similar allocation of general government revenue or by aid or grant funds are excluded from the scope of this Interpretation of the Standards of GRAP.

Agreements in the scope of this Interpretation of the Standards of GRAP are agreements for the construction of assets in exchange transactions. In addition to the construction of assets in exchange transactions, such agreements may include the delivery of other goods or services.

The Interpretation of the Standards of GRAP addresses two issues:

- Is the agreement within the scope of the Standard of GRAP on construction contracts (as revised in 2010) or the Standard of GRAP on revenue from exchange transactions (as revised in 2010),
- When should revenue from the construction of assets in exchange transactions be recognised.

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality has adopted the interpretation for the first time in the 2012 annual financial statements.

The impact of the interpretation is not material.

IGRAP 9: Distributions of non-cash assets to owners

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

This Interpretation of the Standards of GRAP is not applicable to the municipality.

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality has adopted the interpretation for the first time in the 2012 annual financial statements.

There is no impact of the interpretation on adoption.

IGRAP 10: Assets received from customers

This Interpretation of the Standards of GRAP applies to the accounting for the receipt of items of property, plant and equipment by entities that receive such assets from their customers.

Agreements within the scope of this Interpretation of the Standards of GRAP are those in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

This Interpretation of the Standards of GRAP also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

This Interpretation of the Standards of GRAP does not apply to agreements in which the receipt occurs as part of a non-exchange transaction as defined in the Standard of GRAP on Revenue from non-exchange transactions (Taxes and transfers), or infrastructure used in a public-private partnership agreement (see the Guideline on accounting for public-private partnerships), or assets received in a transfer of functions.

The Interpretation of the Standards of GRAP addresses the following issues:
- Is the definition of an asset met?
- If the definition of an asset is met, how should the received item of property, plant and equipment be measured on initial recognition?
- If the item of property, plant and equipment is measured at fair value on initial recognition, how should the resulting credit be accounted for?
- How should the entity account for a receipt of cash from its customer?

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality has adopted the interpretation for the first time in the 2012 annual financial statements.

There is no impact of the interpretation on adoption.

IGRAP 13: Operating leases – incentives

In negotiating a new or renewed operating lease, the lessor may provide incentives for the lessee to enter into the agreement. Examples of such incentives are an up-front cash payment to the lessee or the reimbursement or assumption by the lessor of costs of the lessee (such as relocation costs, leasehold improvements and costs associated with a pre-existing lease commitment of the lessee). Alternatively, initial periods of the lease term may be agreed to be rent free or at a reduced rent.

The issue is how incentives in an operating lease should be recognised in the financial statements of both the lessee and the lessor.

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality has adopted the interpretation for the first time in the 2012 annual financial statements.

There is no impact of the interpretation on adoption.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

IGRAP 14: Evaluating the substance of transactions involving the legal form of a lease

An municipality may enter into a transaction or a series of structured transactions (an arrangement) with an unrelated party or parties (an investor) that involves the legal form of a lease. For example, an entity may lease assets to an investor and lease the same assets back, or alternatively, legally sell assets and lease the same assets back. The form of each arrangement and its terms and conditions can vary significantly.

When an arrangement with an investor involves the legal form of a lease, the issues are:

- how to determine whether a series of transactions is linked and should be accounted for as one transaction;
- whether the arrangement meets the definition of a lease under the Standard of GRAP on Leases (as revised in 2010); and, if not,
  - whether a separate investment account and lease payment obligations that might exist represent assets and liabilities of the entity;
  - how the entity should account for other obligations resulting from the arrangement; and
  - how the entity should account for a fee it might receive from an investor.

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality has adopted the interpretation for the first time in the 2012 annual financial statements.

The impact of the interpretation is not material.

IGRAP 15: Revenue – Barter transactions involving advertising services

An municipality (seller) may enter into a barter transaction to provide advertising services in exchange for receiving other services from its customer (customer). Advertisements may be displayed on the Internet or poster sites, broadcast on the television or radio, published in magazines or journals, or presented in another medium. An example could be where a municipality offers advertising services to local businesses in its community newsletters in exchange for repairs and maintenance services provided by those businesses. These repair and maintenance services may, for example, take the form of repairing and maintaining office buildings or motor vehicles owned by the municipality.

In some cases, no cash or other consideration is exchanged between the entities. In some other cases, equal or approximately equal amounts of cash or other consideration are also exchanged.

A seller that provides advertising services in the course of its ordinary activities recognises revenue under the Standard of GRAP on Revenue from exchange transactions (as revised in 2010) from a barter transaction involving advertising when, amongst other criteria, the services exchanged are dissimilar in terms of paragraph 18 in the Standard of GRAP on Revenue from exchange transactions (as revised in 2010) and the amount of revenue can be measured reliably in terms of paragraph .20(a) in the Standard of GRAP on Revenue from exchange transactions (as revised in 2010). This Interpretation of the Standards of GRAP only applies to an exchange of dissimilar services. An exchange of similar advertising services is not a transaction that generates revenue under the Standard of GRAP on Revenue from exchange transactions (as revised in 2010).

The issue is under what circumstances can a seller reliably measure revenue at the fair value of advertising services received or provided in a barter transaction.

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality has adopted the interpretation for the first time in the 2012 annual financial statements.

The impact of the interpretation is not material.

GRAP 1 (as revised 2010): Presentation of financial statements

The revision resulted in various terminology and definition changes.

Additional commentary has been added, describing the purpose of financial statements in the public sector.

Commentary has been added to explain that where legislation requires a departure from a particular Standard of GRAP and that departure is material, entities cannot claim compliance with the Standards of GRAP.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

Additional disclosure requirements have been added regarding the following areas: assets and liabilities included in disposal groups classified as held for sale, biological assets, deferred tax assets (liabilities), tax expense, post-tax surplus or deficit and the use of transitions provision in the accounting policy.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 annual financial statements.

The impact of the interpretation is not material.

GRAP 2 (as revised 2010): Cash flow statements

The revision resulted in various terminology and definition changes.

Operating cash flows:
- Where an entity is in the business of renting and subsequently selling the same assets, these cash flows should be regarded as operating rather than investing cash flows.

Investing cash flows:
- Only expenditures incurred on a recognised asset qualify to be classified as investing activities in the cash flow statement.

Acquisitions and disposals of controlled entities and other operating units:
- Guidance relating to acquisitions and disposals of entities, particularly those on another basis of accounting, has been deleted.

Disclosure of undrawn borrowing facilities, restricted cash balances and the operating, investing and financing cash flows of jointly controlled entities accounted for using the proportionate consolidation method, now encouraged rather than required.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 annual financial statements.

The impact of the interpretation is not material.

GRAP 3 (as revised 2010): Accounting policies, changes in accounting estimates and errors

The revision resulted in various terminology and definition changes.

Paragraphs added to Changes in accounting policies
- A change from one basis of accounting to another basis of accounting is a change in accounting policy.
- A change in the accounting treatment, recognition or measurement of a transaction, event or condition within a basis of accounting is regarded as a change in accounting policy.

Selection of accounting policies
- The reference to the Accounting Practices Committee (APC) of SAICA has been deleted from paragraph .11 on the basis that it is not a standard setter and that entities would consider information from a wide range of sources in formulating an accounting policy and not just the pronouncements of the APC.
- Commentary on the selection of benchmark and alternative accounting policies has been deleted.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 annual financial statements.

The impact of the interpretation is not material.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

GRAP 4 (as revised 2010): The effects of changes in foreign exchange rates

Terminology changes:

Where reference has been made to the net realisable values of inventories, current replacement cost has also been included to allow for the appropriate valuation of inventories where they are distributed as part of a non-exchange transaction. Reference to ‘trade’ receivables has been amended to ‘receivables’.

Monetary items:

Paragraph .15 clarifies that child support grants are ‘payables’, and not just ‘obligations’ in terms of the current requirements of the Standard of GRAP on Provisions, contingent liabilities and Contingent assets (GRAP 19).

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 annual financial statements.

The impact of the interpretation is not material.

GRAP 9 (as revised 2010): Revenue from exchange transactions

The revision resulted in various terminology and definition changes.

Various amendments, deletions and additions to examples included in the appendix.

All amendments to be applied retrospectively

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 annual financial statements.

The impact of the interpretation is not material.

GRAP 10 (as revised 2010): Financial reporting in hyperinflationary economies

Certain terminology changes:

- The reference to ‘current cost’ in paragraph 30 has been deleted.
- Where reference has been made to ‘net realisable value’, ‘current replacement cost’ has been added.

Net monetary position:
References to ‘surplus’ or ‘deficit’ have been changed, throughout the document, to ‘gain’ or ‘loss’.

Interpretations:
Text included in this Standard of GRAP from IFRIC Interpretation 7 on Applying the restatement approach under IAS 29 Financial reporting in hyperinflationary economies has been deleted.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 annual financial statements.

The impact of the interpretation is not material.

GRAP 11 (as revised 2010): Construction contracts

The revision resulted in certain terminology changes:

Other amendments:

- An example has been added to clarify when an entity acts as a contractor in a construction contract arrangement.

3. New standards and interpretations (continued)

- The example in paragraph 11 has been deleted as it is inappropriate for the South African public sector.
- The explanatory text relating to ‘contractors’ has been amended to clarify that an entity can be a contractor if it performs construction related activities itself or through subcontractors.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 annual financial statements.

The impact of the interpretation is not material.

GRAP 12 (as revised 2010): Inventories

The revision resulted in various terminology and definition changes.

Cost formulas:
Paragraph 34 was amended and 35 was added to separate the principle from the exception when applying the cost formula for inventories with a similar nature and use to the entity.

Recognition as an expense:
Where reference has been made to ‘net realisable value’, ‘current replacement cost’ has been added.

Fair value measurement:
The appendix on how to determine fair value has been deleted.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 annual financial statements.

The impact of the interpretation is not material.

GRAP 13 (as revised 2010): Leases

The revision resulted in various terminology and definition changes.

Scope:
Paragraph 04 has been included to clarify that this Standard does not apply to lease agreements to explore for or use natural resources such as oil, gas, timber, metals and other mineral rights and licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

Non-current assets held for sale and discontinued operations:
Paragraph 51 has been added to clarify that finance lease assets classified as held for sale in accordance with the Standard of GRAP on Non-current assets held for sale and discontinued operations shall be accounted for in accordance with that Standard.

Guidance on accounting for finance leases by lessors:
The paragraph (previously paragraph 53) that provided guidance on the recognition of assets where entities enter into arrangements with private sector entities has been deleted as the Guideline on accounting for public private partnerships supersedes this guidance.

Guidance on operating lease incentives and substance over legal form:
The guidance included in the original text on substance over legal form has been deleted.

Classification of leases on land and buildings elements:
The guidance on the classification of land and buildings has been amended to ensure that the element of the lease relating to the land is classified as a finance lease where significant risks and rewards have been transferred, despite there being no transfer of title, consistent with the general classification guidance.

The effective date of the amendment is for years beginning on or after 01 April 2011.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

The municipality has adopted the amendment for the first time in the 2012 annual financial statements.

The impact of the interpretation is not material.

GRAP 14 (as revised 2010): Events after the reporting date

Existence of a liability for dividends or similar distributions:
Paragraph .13 of GRAP 14 was amended to clarify that no liability exists at the reporting date for dividends or similar distributions declared after the reporting date.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 annual financial statements.

The impact of the interpretation is not material.

GRAP 16 (as revised 2010): Investment property

The revision resulted in various terminology and definition changes.

Recognition of investment property:

- Additional commentary has been included in paragraph 19 and 20 to explain paragraph 18 that outlines the recognition criteria for investment property.
- This Standard includes investment property under construction as it was inconsistent with the requirement that investment property being redeveloped was still within the scope of this Standard, but not the initial development. As a result paragraphs 10 and 11 were amended, paragraphs 60 and 61 inserted, and paragraphs 25 and 65(e) of the original text deleted.
- The measurement principles were also amended accordingly to allow investment property under construction to be measured at cost if fair value cannot be measured reliably, until such time as the fair value can be measured reliably.
- Additional guidance has been included in the examples of investment property to clarify that the rentals earned do not have to be on a commercial basis or market related for the property to be classified as investment property.

Disclosure:
Entities are encouraged, rather than required, to disclose the fair value of investment property when this is materially different from the carrying amount.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 annual financial statements.

The impact of the interpretation is not material.

GRAP 17 (as revised 2010): Property, plant and equipment

The revision resulted in various terminology and definition changes.

Scope:

- The recognition and measurement of exploration and evaluation assets have been added to the scope exclusions.
- Investment properties under construction have been removed from the scope.

Measurement at initial recognition:
Paragraph .23 and .24 have been amended to clarify that the guidance applicable to determine fair value for revalued assets applies equally to the initial measurement of items of property, plant and equipment at fair value.

Depreciable amount and depreciation period:
An additional paragraph has been added to clarify that reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

Derecognition:

- The requirement to not classify gains from the disposal of property, plant and equipment as revenue, has been removed.
- Paragraph .79 has been added in line with the IASB Improvements Project to clarify that where assets are held for rental to others in the ordinary course of operations and the entity subsequently sells the assets, the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations does not apply. Rather, these assets are to be transferred and treated in accordance with the Standard of GRAP on Inventories.

Disclosures:

- The required disclosures in paragraph .90 have been amended to encouraged disclosures. Added to the list of encourage disclosures is the fair value disclosure of assets where the cost model is used.
- The requirement to disclose the cost basis for revaluated assets was removed.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 annual financial statements.

The impact of the interpretation is not material.

GRAP 19 (as revised 2010): Provisions, contingent liabilities and contingent assets

The revision resulted in certain terminology changes.

Social benefits:
Paragraphs .08 and .16(a) clarify that social benefits due at year end are ‘payables’, as the amounts due are certain in terms of legislation.

Binding agreements for restructurings:
Paragraph .87 has been amended to clarify that restructurings may take place in the public sector in terms of directives, legislation or other means. These alternative means are enforceable and may give rise to an obligation.

Interpretations:
In developing the Standard initially, the Board included relevant text from any Interpretation that had been issued by the International Financial reporting interpretations committee (IFRIC) relating to provisions, contingent liabilities and contingent assets. The Board included selected text from IFRIC 1 on Changes in decommissioning, restoration and similar Liabilities and IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds in line with the Board’s decisions. The Board concluded at its May 2008 meeting that it would issue any Interpretations as separate documents rather than dispersing the text of the Interpretations across various Standards. As a result, paragraphs 37 to 43, 74 to 80, and Appendix F of the previous version of GRAP 19, have been deleted.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 annual financial statements.

The impact of the interpretation is not material.

GRAP 100 (as revised 2010): Non-current assets held for sale and discontinued operations

The revision resulted in various terminology and definition changes.

Scope:
Paragraph 07 has been added to clarify the application of other Standards of GRAP to assets classified as non-current assets (or disposal groups) held for sale.

Plan to sell the controlling interest in a controlled entity:

- The Standard has been amended to clarify that an entity that is committed to a sales plan involving loss of control in a controlled entity shall classify all the assets and liabilities of that controlled entity as held for sale when the required criteria are met.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

- The Standard has been amended to clarify that an entity that is committed to a sales plan involving loss of control of a controlled entity shall disclose the information required when the controlled entity is a disposal group that meets the definition of a discontinued operation.

Examples included in Appendix:
An additional example has been included regarding sale expected to be completed within one year.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 annual financial statements.

The impact of the interpretation is not material.

3.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

GRAP 104: Financial instruments

The Standard of GRAP prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, a municipality considers the substance of the contract and not just the legal form.

Financial assets and financial liabilities are initially recognised at fair value. Where a municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. A municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, a municipality can however designate such an instrument to be measured at fair value

A municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once a municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.
.
A municipality derecognises a financial asset, or the specifically identified cash flows of an asset, when::

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, a municipality has transferred control of the asset to another municipality.

A municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where a municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

A municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for a municipality’s statement of financial position and statement of financial performance, as well as the nature and extent of the risks that a municipality is exposed to as a result of its financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has early adopted the standard for the first time in the 2012 financial statements.
The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in less disclosure than would have previously been provided in the financial statements.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

3.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2012 or later periods:

GRAP 105: Transfers of functions between entities under common control

The objective of this Standard of GRAP is to establish accounting principles for the acquirer and transferor in a transfer of functions between municipalities under common control.

A transfer of functions between municipalities under common control is a reorganisation and/or reallocation of functions between municipalities that are ultimately controlled by the same entity before and after a transfer of functions.
In the event of a transfer of functions between municipalities under common control, the assets and liabilities should be recognised (by the acquirer) at their carrying amounts and should be derecognised (by the transferor) at their carrying amounts.

The difference between amount of consideration paid or received, if any, and the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

Specific disclosures are required when there is a transfer of functions between municipalities under common control.

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

The impact of this standard is currently being assessed.

GRAP 106: Transfers of Functions Between Entities not Under Common Control

The objective of this Standard of GRAP is to establish accounting principles for the acquirer in a transfer of functions between municipalities not under common control.

A transfer of functions between municipalities not under common control is a reorganisation and/or reallocation of functions between municipalities that are not ultimately controlled by the same entity before and after a transfer of functions.
In the event of a transfer of functions between municipalities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition-date fair values and should be derecognised (by the acquiree) at their carrying amounts.

The difference between amount of consideration paid or received, if any, and the fair value of assets acquired and liabilities assumed or carrying amounts of assets transferred and liabilities relinquished should be recognised in surplus / (deficit).

For transfer of functions between municipalities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles.

Specific disclosures are required when there is a transfer of functions between municipalities not under common control.

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard once it becomes effective.

The impact of this amendment is currently being assessed.

GRAP 107: Mergers

The objective of this Standard of GRAP is to establish accounting principles for the combined municipality and combining municipalities in a merger.

A merger is where a new combined municipality is started, no acquirer can be identified and the combining municipalities do not have any control over the municipality.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

In the event of a merger, the assets and liabilities should be recognised (by the combined municipality) at their carrying amounts and should be derecognised (by thecombining municipalities) at their carrying amounts.

The difference between the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

Specific disclosures are required when there is a merger.

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard once it becomes effective.

The impact of this standard is currently being assessed.

GRAP 20: Related Party Disclosures

The objective of this Standard of GRAP is to ensure that a municipality's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

This Standard of GRAP requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the municipality in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This Standard of GRAP also applies to individual financial statements.

This Standard of GRAP requires that only transactions with related parties where the transactions are not concluded within normal operating procedures or on terms that are not no more or no less favourable than the terms it would use to conclude transactions with another municipality, entity or person are disclosed.

The Standard of GRAP sets out the requirements, inter alia, for the disclosure of:

- control;
- related party transactions; and
- remuneration of management

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

IGRAP 16: Intangible Assets - Website Costs

The Interpretation deals with the treatment of a municipality's own website. The guidance on website costs was previously included in the Standard of GRAP on Intangible Assets.

It concludes that a municipality’s own website that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of the Standard of GRAP on Intangible Assets.

A website arising from development will be recognised as an intangible asset if, and only if, in addition to complying with the general requirements described in the Standard of GRAP on Intangible Assets for recognition and initial measurement, a municipality can satisfy the requirements in paragraph .54 in the Standard of GRAP on Intangible Assets, which in particular requires a municipality to be able to demonstrate how its website will generate probable future economic benefits or service potential.

If a municipality is not able to demonstrate how a website developed solely or primarily for providing information about its own products and services will generate probable future economic benefits or service potential, all expenditure on developing such a website will be recognised as an expense when incurred.

A website that is recognised as an intangible asset under this Interpretation will be measured after initial recognition by applying the requirements in the Standard of GRAP on Intangible Assets.

The effective date of the interpretation is for years beginning on or after 01 April 2013.

The municipality expects to adopt the interpretation for the first time in the 2014 financial statements.
It is unlikely that the interpretation will have a material impact on the municipality's financial statements.

Improvements to Standards of GRAP

The following Standards of GRAP have been amended as part of the ASB's Improvements Project for 2011:
- GRAP 1;
- GRAP 3;
- GRAP 7;
- GRAP 9;
- GRAP 12;
- GRAP 13;
- GRAP 16; and
- GRAP 17.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

The changes made will have no significant impact, except for the following:

A change to the cost model when a reliable measure of fair value is no longer available (or vice versa) for an asset that a Standard of GRAP would otherwise require or permit to be measured at fair value are no longer considered to be a change in an accounting policy in terms of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010).

A requirement to include transaction costs on initial recognition of an investment in an associate under the equity method, has been included in the Standard of GRAP Investments in Associates.

Changes were made to the Standard of GRAP on Investment Property (as revised in 2010) to ensure the consistent application of the principle where assets are acquired in exchange for non-monetary assets when the exchange transaction lacks commercial substance. Furthermore the assessment of significant use of an investment property has been clarified.

Changes were made to the Standard of GRAP on Property, Plant and Equipment (as revised in 2010) to ensure the consistent application of the principle where assets are acquired in exchange for non-monetary assets when the exchange transaction lacks commercial substance. Furthermore the requirement to disclose property, plant and equipment that were temporarily idle, has been clarified.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

3.4 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2012 or later periods but are not relevant to its operations:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which a municipality reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of a municipality that provides specific outputs or achieves particular operating objectives that are in line with the municipality’s overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by a municipality within a particular region.

No effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard once it becomes effective.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

4. Investment property

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	18 345 000	-	18 345 000	12 023 600	-	12 023 600

Reconciliation of investment property - 2012

	Opening balance	**Transfers**	**Fair value adjustments**	**Total**
Investment property	12 023 600	5 180 000	1 141 400	18 345 000

Reconciliation of investment property - 2011

	Opening balance	**Fair value adjustments**	**Total**
Investment property	7 723 600	4 300 000	12 023 600

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The effective date of the revaluations was 30 June 2012. Revaluations were performed by an independent valuer, Valuers Africa (Pty) Ltd. Valuers Africa (Pty) Ltd are not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

5. Property, plant and equipment

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	57 589 700	-	57 589 700	47 930 980	-	47 930 980
Buildings	17 149 909	(1 608 531)	15 541 378	15 291 594	(1 025 248)	14 266 346
Infrastructure	918 683 718	(362 384 478)	556 299 240	863 145 024	(271 748 833)	591 396 191
Community	23 472 490	(2 481 172)	20 991 318	23 472 490	(1 860 879)	21 611 611
Infrastructure work in progress	46 441 186	-	46 441 186	26 571 463	-	26 571 463
Finance lease asset	1 207 460	(346 631)	860 829	344 715	(183 877)	160 838
Landfill site	12 966 262	-	12 966 262	2 109 480	-	2 109 480
Other property, plant and equipment	31 761 989	(17 183 874)	14 578 115	27 161 099	(12 920 231)	14 240 868
Total	**1 109 272 714**	**(384 004 686)**	**725 268 028**	**1 006 026 845**	**(287 739 068)**	**718 287 777**

Notes to the Annual Financial Statements

Figures in Rand

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Transfers	Revaluations	Other changes, movements	Depreciation	Total
Land	47 930 980	-	(176 480)	(5 180 000)	15 015 200	-	-	57 589 700
Buildings	14 266 346	1 857 970	-	-	-	-	(582 938)	15 541 378
Infrastructure	591 396 191	27 339 590	-	21 564 697	-	6 632 290	(90 633 528)	556 299 240
Community	21 611 611	-	-	-	-	-	(620 293)	20 991 318
Infrastructure work in progress	26 571 463	39 744 643	-	(21 564 697)	-	1 689 777	-	46 441 186
Finance lease asset	160 838	866 484	-	-	-	-	(166 493)	860 829
Landfill site	2 109 480	10 856 782	-	-	-	-	-	12 966 262
Other property, plant and equipment	14 240 868	4 542 874	(25 937)	-	-	-	(4 179 690)	14 578 115
	718 287 777	**85 208 343**	**(202 417)**	**(5 180 000)**	**15 015 200**	**8 322 067**	**(96 182 942)**	**725 268 028**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation	Total
Land	48 731 563	-	(933 583)	-	133 000	-	47 930 980
Buildings	9 865 603	4 759 880	-	-	-	(359 137)	14 266 346
Infrastructure	673 845 295	8 461 130	-	-	-	(90 910 234)	591 396 191
Community	22 231 904	-	-	-	-	(620 293)	21 611 611
Infrastructure work in progress	8 449 014	22 283 266	-	(4 160 817)	-	-	26 571 463
Finance lease asset	241 503	-	-	-	-	(80 665)	160 838
Landfill site	-	2 109 480	-	-	-	-	2 109 480
Other property, plant and equipment	17 306 083	1 059 550	-	-	-	(4 124 765)	14 240 868
	780 670 965	**38 673 306**	**(933 583)**	**(4 160 817)**	**133 000**	**(96 095 094)**	**718 287 777**

Pledged as security

At year end no assets have been pledged as security.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

5. Property, plant and equipment (continued)

Assets subject to finance lease (Net carrying amount)

Finance lease asset	860 829	160 838

Revaluations

The effective date of the revaluations was 30 June 2012. Revaluations were performed by independent valuer, Valuers Africa (Pty) Ltd.Valuers Africa (Pty) Ltd are not connected to the municipality.

These assumptions were based on current market conditions.

A register containing the information required by section 63 of the Municipal finance management act is available for inspection at the registered office of the municipality.

6. Inventories

Consumables	65 083	66 200
Water	65 601	275 936
	130 684	**342 136**

7. Other financial assets

Financial instruments at fair value		
Listed shares	473 402	364 949
Financial instruments at amortised cost		
RMB: Unit trust (Contract number RU 50043474)	2 083 436	1 976 640
Sanlam: Guarnteed Capital Fund (Policy number 9921774X7)	1 970 056	1 866 762
Start date 01/07/2002		
End date: cover at death		
Standard bank money maket call account - Account number 038478668002	37 074	43 068
End date indefinite		
Stanlib classic investment plan - Account number IP0006247	8 189 070	27 035 032
Start date 29/7/2002		
End date indefinite		
Original investment R7 000 000		
Stanlib money market	1 525 225	1 626 047
	13 804 861	**32 547 549**
Total other financial assets	**14 278 263**	**32 912 498**

Current assets		
Financial instruments at fair value	473 402	364 949
Financial instruments at amortised cost	13 804 861	32 547 549
	14 278 263	**32 912 498**

Fair value information

The following classes of financial assets are carried at fair value:

- Listed shares

The Municipality owns 13,242 shares in Sanlam Limited which was trading at 35,75c (2011:27.56c) per share at each reporting period.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

7. Other financial assets (continued)

Renegotiated terms

None of the financial assets that are fully performing have been renegotiated in the last year.

The municipality has not reclassified any financial asset from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

Credit quality of other financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

8. Operating lease asset (accrual)

Operating lease asset represent rentals receivable by the municipality for premises/properties rented out. The lease was negotiated for periods ranging from 36 months to 119 months. The rentals escalate on average between 5% and 6% per annum.

9. Other receivables from non-exchange transactions

	2012	2011
Staff debtors	8 282	8 282

Credit quality of other receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

The municipality does not hold any collateral as security.

10. VAT receivable

	2012	2011
VAT	335 938	18 911 351

VAT is payable on the cash basis. VAT is paid over to the SARS only once payment is received from receivables.

11. Consumer receivables

	2012	2011
Gross balances		
Rates	153 098 443	129 797 312
Electricity	12 962 617	10 292 753
Water	5 171 597	4 538 303
Sewerage	30 141 976	25 898 052
Refuse	29 088 392	24 638 098
Other	14 491 275	14 009 916
	244 954 300	**209 174 434**
Less: Provision for bad debt		
Rates	(124 515 424)	(103 974 513)
Electricity	(10 453 905)	(9 327 425)
Water	(4 170 715)	(3 690 741)
Sewerage	(24 308 467)	(20 037 372)
Refuse	(23 458 787)	(21 062 052)
Other	(11 370 874)	(10 922 782)
	(198 278 172)	**(169 014 885)**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

11. Consumer receivables (continued)

Net balance		
Rates	28 583 019	25 822 799
Electricity	2 508 712	965 328
Water	1 000 882	847 562
Sewerage	5 833 509	5 860 680
Refuse	5 629 605	3 576 046
Other	3 120 401	3 087 134
	46 676 128	**40 159 549**

Rates		
Current (0 -30 days)	2 545 065	2 427 902
31 - 60 days	2 474 533	2 295 916
61 - 90 days	2 529 253	2 268 026
> 90 days	145 549 591	122 805 468
Provision for bad debt	(124 515 423)	(103 974 513)
	28 583 019	**25 822 799**

Electricity		
Current (0 -30 days)	428 510	591 658
31 - 60 days	449 311	579 821
61 - 90 days	648 438	620 429
> 90 days	11 436 358	8 500 845
Provision for bad debt	(10 453 905)	(9 327 425)
	2 508 712	**965 328**

Water		
Current (0 -30 days)	70 337	125 685
31 - 60 days	58 219	95 102
61 - 90 days	175 196	137 051
> 90 days	4 867 845	4 180 465
Provision for bad debt	(4 170 715)	(3 690 741)
	1 000 882	**847 562**

Sewerage		
Current (0 -30 days)	470 522	470 982
31 - 60 days	459 499	426 250
61 - 90 days	448 824	404 588
> 90 days	28 763 131	24 596 232
Provision for bad debt	(24 308 467)	(20 037 372)
	5 833 509	**5 860 680**

Refuse		
Current (0 -30 days)	457 455	435 853
31 - 60 days	447 460	402 845
61 - 90 days	439 433	388 790
> 90 days	27 744 044	23 410 610
Provision for bad debt	(23 458 787)	(21 062 052)
	5 629 605	**3 576 046**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

11. Consumer receivables (continued)

Other		
Current (0 -30 days)	71 458	78 447
31 - 60 days	70 829	80 630
61 - 90 days	134 784	65 502
> 90 days	14 214 204	13 785 337
Provision for bad debt	(11 370 874)	(10 922 782)
	3 120 401	**3 087 134**

Reconciliation of provision for bad debt		
Balance at beginning of the year	(169 014 885)	(136 905 078)
Contributions to provision	(29 263 287)	(29 867 652)
Correction of prior year	-	(2 242 155)
	(198 278 172)	**(169 014 885)**

Consumer debtors pledged as security

None of the consumer receivables were pledged as security.

None of the financial assets that are fully performing have been renegotiated in the last year.

Fair value of consumer debtors

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The municipality does not hold any collateral as security.

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1 117	1 401
Bank balances	9 202 175	9 537 916
	9 203 292	**9 539 317**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2012	**30 June 2011**	**30 June 2010**	**30 June 2012**	**30 June 2011**	**30 June 2010**
Standard Bank - Current account - 033255954	2 658 446	12 992 970	2 440 593	9 202 175	9 537 916	(598 227)

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

13. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2012

	Financial assets at amortised cost	Financial assets at fair value	Total
Cash and cash equivalents	9 202 175	-	9 202 175
Consumer receivables	46 676 128	-	46 676 128
Other financial assets	13 804 861	473 402	14 278 263
Other receivables from non-exchange transactions	8 282	-	8 282
	69 691 446	**473 402**	**70 164 848**

2011

	Financial assets at amortised cost	Financial assets at fair value	Total
Cash and cash equivalents	9 539 317	-	9 539 317
Consumer receivables	39 150 966	-	39 150 966
Other financial assets	32 547 549	364 949	32 912 498
Other receivables from non-exchange transactions	8 282	-	8 282
	81 246 114	**364 949**	**81 611 063**

14. Discontinued operations or disposal groups or non-current assets held for sale

The municipality has decided to dispose of some stands. At year end these disposals were not completed.

The disposal are expected to be completed by 2013/06/30.

Assets and liabilities

	2012	2011
Non-current assets held for sale		
Property, plant and equipment	2 797 300	-

15. Finance lease obligation

	2012	2011
Minimum lease payments due		
- within one year	633 116	122 710
- in second to fifth year inclusive	1 030 786	100 960
- later than five years	81 488	103 218
	1 745 390	326 888
less: future finance charges	(863 114)	(118 557)
Present value of minimum lease payments	**882 276**	**208 331**

	2012	2011
Present value of minimum lease payments due		
- within one year	256 848	87 564
- in second to fifth year inclusive	589 110	46 404
- later than five years	36 318	74 363
	882 276	**208 331**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

15. Finance lease obligation (continued)

Non-current liabilities	625 428	120 767
Current liabilities	256 848	87 564
	882 276	**208 331**

The average lease term is 3 years and the average effective borrowing rate is 9%. Interest rates are fixed at the contract date. Some leases have fixed repayment terms. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

16. Trade and other payables from exchange transactions

1 % social responsibility	1 053 100	80 697
Accrual - leave pay	5 871 420	3 089 528
Accrual - thirteenth cheque	1 392 516	1 233 053
Consumer deposits	592 667	629 235
Retentions	13 914 739	5 311 767
Suspense accounts	737 350	-
Trade payables	26 389 785	9 187 928
Unallocated deposits	404 841	-
	50 356 418	**19 532 208**

17. Unspent conditional grants

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Finance management grant	708 434	2 222 726
Municipal infrastructure grant	-	18 154 901
Municipal systems improvement grant	-	223 881
Department of Local Government	228 832	228 832
Department of Water Affairs	1 354 773	3 383 041
Development bank of south africa	173 157	-
Accelerated community infrastructure programme	2 808 477	-
Department of Arts and Culture	199 666	199 666
	5 473 339	**24 413 047**

Movement during the year

Balance at the beginning of the year	24 413 047	22 971 897
Additions during the year	79 600 537	64 189 000
Income recognition during the year	(98 540 245)	(62 747 850)
	5 473 339	**24 413 047**

See note for reconciliation of grants from National/Provincial Government.

18. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Reversed during the year	Total
Performance bonus	383 374	-	(383 374)	-
Long-service awards	-	216 816	-	216 816
Landfill site	-	7 753 073	-	7 753 073
	383 374	**7 969 889**	**(383 374)**	**7 969 889**

Reconciliation of provisions - 2011

	Opening Balance	Additions	Reversed during the year	Total
Performance bonus	1 181 999	383 374	(1 181 999)	383 374

The municipality engages in waste disposal operations from residential and business areas within the following areas:

- Additional text
- Carolina landfill/dump site
- Mpuluzi dumpsite
- Ekulindeni disposal site
- Badplaas dumpsite
- Elukwatini landfill site

It is required from the entity to execute an environmental management program to restore the landfill sites after its useful life.

The expected cash flows will be over the next 30 years entailing three components:

- Pre closure costs
- Rehabilitation and closure costs
- Post-closure monitoring and maintenance costs (aftercare)

Employees qualify for long-service awards in terms of leave days credits for the various periods on continuous service completed at the same employer, as follow;

- After 10 years - 10 working days
- After 15 years - 15 working days
- After 20, 25, 30, 35, 40 and 45 - 30 workings days

An asumptions used include:

- 6.5% average increase in employee costs
- Employee will remain in the service of the municipality

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

19. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

This is the first Post-Retirement Medical Aid actuarial valuation performed. Therefore a restrospective valuation of the liability was also performed as at 30 June 2011 and 30 June 2010.

The defined benefit plans disclosed below are represented by medical aid for retired employees and pension payments for both retired and current employees. The municipality pays between 50% and 60%,depending on the age of the retired employees at the date of the circular issued, of the medical aid contributions of retired employees who were in the service of the Council on or before 1 July 2003, as well as a pension to retired employees based on certain criteria to be met, set out in the Municipality's Conditions of Service.

There are no current subsidy policy used. Therefore the guidelines as set by the South African Local Government Association (SALGA) in Resolution 8 (post-retirement Medical Aid Subsidies) were applied for valuation purposes.

However, pensioners that are currently receiving a post retirement medical aid benefit do not match the SALGA policy in terms of the subsidy percentage. Therefore it was decided that the current pensioners will be valued based on the actual subsidy that they are currently receiving, which is either 70% or 100% subsidy of their total monthly medical aid contribution. In addition, the subsidy policy is not limited to a maximum for pensioners.

The amounts recognised in the statement of financial position are as follows:

	2012	2011
Carrying value		
Present value of the defined benefit obligation	(10 606 168)	(10 580 607)

Changes in the present value of the defined benefit obligation are as follows:

	2012	2011
Opening balance	10 580 607	10 453 850
Service cost	48 944	45 809
Interest cost	607 465	694 541
Benefits paid	(630 848)	(613 593)
	10 606 168	**10 580 607**

Net expense recognised in the statement of financial performance

	2012	2011
Current service cost	48 944	45 809
Interest cost	607 465	694 541
	656 409	**740 350**

19. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

	2012	2011
Real discount rate	1,00 %	1,00 %
Consumer price inflation	2,50 %	2,50 %
Salary inflation	3,50 %	3,50 %
Investment return (2010: 6,84%)	- %	5,92 %
Long term medical inflation (2010: 5,79%)	- %	4,87 %

A single assumption for the investment return assumption is not shown as the entire South African zero-coupon yield curve as at 30 June 2012 was used.

Since the discount rates are described using a yield curve, a yield curve is also used to describe future medical inflation. Future medical inflation is assumed to be 1% lower than the valuation discount rate at each term to maturity. A long-term "gap"("real discount rate") of 1% between medical inflation and the valuation discount rate is reasonable for long term valuation purposes.

The benefits payable during 2012/2013 of R645 841 are the estimated medical scheme contributions with respect to the Post Retirement Medical Aid receiving members during the period 1 July 2012 to 30 June 2013.

Other assumptions

The effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend rates on the following would be:

	One percentage point increase	**One percentage point decrease**
Defined benefit obligation	9 558 397	11 825 062
Service cost	45 833	58 070
Interest cost	494 924	624 885

The service cost in the above table represents the increase in the liability due to the additional years of service accrued by the active members. For the base cost, where the assumption is made that the "gap"("real discount rate") was 1%, it is projected that service cost of R41 924 will be incurred. It should be noted that pensioners are not included in this figure since they do not accrue any extra years of service.

The interest cost is based on the discount rate assumption for the current valuation which is based on the Zero-coupon Yield Curve of South Africa as at 29 June 2012, the liability accrued as at 30 June 2012 and the contributions paid during the financial year.

The amounts for the current annual reporting period and previous two annual reporting periods of:

	30 June 2012	**30 June 2011**	**30 June 2010**		
Present value of obligation	10 606 168	10 580 607	10 453 850	-	-

20. Revaluation reserve

	2012	2011
Opening balance	6 234 263	6 101 263
Change during the year	17 812 500	133 000
	24 046 763	**6 234 263**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

20. Revaluation reserve (continued)

Revaluation surplus relating to property, plant and equipment

Revaluation surplus beginning of period	6 234 263	6 101 263
Movements in the reserve for the year	17 812 500	133 000
	24 046 763	**6 234 263**

21. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2012

	Financial liabilities at amortised cost	Total
Trade and other payables from exchange transactions	49 763 752	49 763 752
Consumer deposits	592 667	592 667
	50 356 419	**50 356 419**

2011

	Financial liabilities at amortised cost	Total
Trade and other payables from exchange transactions	18 902 975	18 902 975
Consumer deposits	629 235	629 235
	19 532 210	**19 532 210**

22. Revenue

Property rates	21 997 956	24 638 431
Service charges	25 550 949	20 771 094
Rental of facilities and equipment	439 075	502 991
Interest received	16 042 871	14 337 670
Fines	856 582	1 428 712
Licences and permits	949 066	690 944
Government grants and subsidies	241 587 843	187 163 489
Donations	9 712 587	6 694 638
	317 136 929	**256 227 969**

Interest received – consumers	16 042 871	14 337 670
Licences and permits	949 066	690 944
Rental of facilities and equipment	439 075	502 991
Service charges	25 550 949	20 771 094
The amount included in revenue arising from exchanges of goods or services are as follows:		
	42 981 961	**36 302 699**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

22. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	21 997 956	24 638 431
Fines	856 582	1 428 712
Transfer revenue		
Levies	241 587 843	187 163 489
Donations	9 712 587	6 694 638
	274 154 968	**219 925 270**

23. Property rates

Rates received

Residential / industrial	26 216 527	26 069 686
Commercial	1 192	-
Less: Income forgone	(4 219 763)	(1 431 255)
	21 997 956	**24 638 431**

Valuations

Residential	371 701 800	373 072 400
Commercial	143 740 100	111 539 000
State	182 612 900	179 634 400
Municipal	4 437 200	5 437 200
Agriculture	1 152 896 200	1 152 896 200
Other	406 330 400	403 913 100
	2 261 718 600	**2 226 492 300**

Valuations on land and buildings are performed every four years. The last valuation came into effect on 1 July 2012. Interim valuations are processed on a quarterly basis to take into account changes in individual property values due to alterations.

A general rate of R0.01 (2011: R0.01) is applied to property valuations to determine assessment rates. Rebates of 0% (2011: 25%) are granted to residential and state property owners.

Rates are levied on an annual basis with the final date of payment being 30 November 2012 (2011: 30 November). Interest at prime (20X0: prime) is levied on outstanding rates.

24. Service charges

Sale of electricity	20 083 714	17 251 347
Sale of water	788 684	1 834 656
Sewerage and sanitation charges	4 681 727	4 556 555
Refuse removal	(3 176)	1 821
Rebate	-	(2 873 285)
	25 550 949	**20 771 094**

25. Government grants and subsidies

Equitable share	140 273 121	119 220 970
Government grants	101 314 722	67 942 519
	241 587 843	**187 163 489**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

25. Government grants and subsidies (continued)

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Financial management grant

Balance unspent at beginning of the year	2 222 726	1 066 432
Current year receipts	1 250 000	3 000 000
Conditions met - transferred to revenue	(2 764 292)	(1 843 706)
	708 434	**2 222 726**

The grant is intended to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).

Conditions still to be met remain liabilities (see note17).

Municipal infrastructure grant

Balance unspent at beginning of year	18 154 901	19 231 014
Current year receipts	74 836 968	52 939 000
Conditions met - transferred to revenue	(92 991 869)	(54 015 113)
	-	**18 154 901**

The grant is intended to provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro
enterprises and social institutions servicing poor communities.

Municipal systems improvement grant

Balance unspent at beginning of year	223 881	353 079
Current year receipts	790 000	750 000
Conditions met - transferred to revenue	(1 013 881)	(879 198)
	-	**223 881**

The grant is intended to assist the Municipality in building in house capacity to perform their functions and stabilise institutional
and governance systems as required in the the Municipal Systems Act (MSA) and related legislation, policies and local government turnaround strategy.

Department of local government

Balance unspent at beginning of year	228 832	228 832

The grant is intended for the construction of the ring road in Silobela which is funded by the provincial and local government and housing.

Conditions to be met includes the finalisation of the payment certificates.

Conditions still to be met remain liabilities (see note17).

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

25. Government grants and subsidies (continued)

Water services operating subsidy grant

Balance unspent at beginning of year	3 383 041	2 105 077
Current year receipts	1 354 773	5 000 000
Conditions met - transferred to revenue	(3 383 041)	(3 722 036)
	1 354 773	**3 383 041**

The grant is intended to fund bulk, connector and internal infrastructure of water services at a basic level of service.

Conditions still to be met remain liabilities (see note17).

Development bank of south africa

Current year receipts	491 796	-
Conditions met - transferred to revenue	(318 639)	-
	173 157	**-**

The grant is intended to co-fund the land use management system.

Conditions to be met include finalisation of the land use management system.

Conditions still to be met remain liabilities (see note17).

Accelerated community infrastructure programme

Current year receipts	2 808 477	-

The grant is intended to fund the development of the package plant and AC pipes for Silobela.

Conditions still to be met - remain liabilities (see note 17).

Department of arts and culture

Balance unspent at beginning of year	199 666	199 666

The grant is intended to improve the social economic situation.

Conditions to be met include implementing improvements on library equipment.

Conditions still to be met remain liabilities (see note17).
Additional text

Expanded public works program

Current year receipts	877 000	-
Conditions met - transferred to revenue	(877 000)	-
	-	**-**

The grant was used for the creation of employment.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

26. Other income

Connection fees	404 803	147 835
Proceeds from sale of stands	481 243	344 798
Sundry income	630 123	273 727
Tender deposits	238 585	409 350
	1 754 754	**1 175 710**

27. Investment revenue

Interest revenue		
Interest on investments	2 641 570	3 017 002

28. Operating deficit

Operating deficit for the year is stated after accounting for the following:

Operating lease charges		
Premises		
• Contractual amounts	1 027 645	831 666
Depreciation on property, plant and equipment	96 274 403	95 213 001
Employee costs	92 767 845	81 312 498

29. Employee related costs

Acting allowances	1 483 164	1 478 959
Bargaining council	15 150	13 584
Basic	49 216 270	43 080 573
Bonus	3 759 158	3 265 109
Housing benefits and allowances	716 581	54 679
Leave pay accrual	3 697 508	2 189 223
Long-service awards	343 893	165 435
Medical aid	3 080 933	2 704 724
Overtime payments	4 127 000	5 014 796
Pension Fund	9 098 813	8 214 977
Provident fund	51 735	8 751
SDL	634 580	556 437
Standby allowances	854 833	196 076
Telephone allowances	5 200	1 736
Travel allowances	3 850 189	3 073 218
UIF	382 285	345 186
	81 317 292	**70 363 463**

Figures in Rand	2012	2011

29. Employee related costs (continued)

Remuneration of municipal manager: Mpila VN

Annual remuneration	647 904	249 763
Allowances	66 791	38 133
Settlement packages	-	649 635
Contributions to UIF, SDL, medical and pension funds	159 949	58 198
	874 644	**995 729**

Remuneration as reflected in 2012 is for a period of 9 months due to a new appointment in October 2011. The Municipal manager acted for the first 3 months.

Remuneration as reflected in 2011 is for a period of 5 months due to a resignation of the Municipal manager in November 2010.The current Municipal Manager acted for the other 7 months from December 2010.

The prior period figures of allowances R32 500 and contributions to UIF, SDL, medical and pension funds R55 572 have been corrected.

Remuneration of chief finance officer: Rampedi MN

Annual remuneration	203 817	-
Allowances	39 935	-
Contributions to UIF, SDL, medical and pension funds	2 857	-
	246 609	**-**

Remuneration as reflected in 2012 is for a period of 4 months due to a new appointment in March 2012. The Manager of Expenditure acted as CFO in 2012 for a period of 8 months from July 2011 - February 2012.

The Manager of expenditure acted as Chief financial officer in the 2010/2011 reporting period.

The prior period figures of annual remuneration R278 909, allowances R42 000 and contributions to UIF, SDL, medical and pension funds R82 032 have been corrected.

In the 2010/2011 reporting period the Chief financial officer received a settlement package of R429 661.

Remuneration of Director: Technical services: Matlala GM

Annual remuneration	488 546	259 701
Allowances	120 000	60 000
Contributions to UIF, SDL, medical and pension funds	120 605	28 573
	729 151	**348 274**

Remuneration as reflected in 2011 is for a period of 9 months due to a resignation in December 2010 new appointment in April 2011. No acting Director: Technical services was appointed for the period January 2011 till March 2011.

The prior period figures of annual remuneration R231 348, allowances R62 857 an contributions to UIF, SDL, medical and pension funds R66 619 have been corrected.

Remuneration of Director: Corporate services: Mndebele SF

Annual remuneration	536 719	501 032
Allowances	91 605	78 000
Contributions to UIF, SDL, medical and pension Funds	165 847	111 724
	794 171	**690 756**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

29. Employee related costs (continued)

Remuneration of Director: Public safety: Makgopa KB

Annual remuneration	177 950	461 216
Allowances	17 576	102 710
Contributions to UIF, SDL, medical and pension funds	51 275	126 830
	246 801	**690 756**

Remuneration as reflected in 2012 is for a period of 4 months due to a new appointment in March 2012. The Chief licensing officer acted as Director: Public safety for the period of 8 months from July 2011 - February 2012.

Remuneration of Director: Community services: Mkhwanazi ZF

Annual remuneration	284 632	501 032
Allowances	29 300	78 000
Contributions to UIF, SDL, medical and pension funds	40 353	111 724
	354 285	**690 756**

Remuneration as reflected in 2012 is for a period of 6 months due to a resignation in September 2011 and a new appointment in April 2012. The Manager:Community development and Manager:Environmental and health acted as Director: Community services for the period October 2011 to March 2012.

Remuneration of Director: Planning and economic development: Lukhele TA

Annual remuneration	286 650	455 587
Allowances	37 264	84 000
Contributions to UIF, SDL, medical and pension funds	48 704	151 169
	372 618	**690 756**

Remuneration as reflected in 2012 is for a period of 6 months due to a resignation in September 2011 and a new appointment in April 2012. The Manager: Local Economic Development acted for 6 months for the period October 2011 to March 2012.

30. Remuneration of councillors

Executive mayor	636 961	625 957
Mayoral committee members	1 465 782	1 482 988
Speaker	512 551	499 320
Councillors	8 786 315	8 294 961
Defined benefit plan: Service costs	48 944	45 809
	11 450 553	**10 949 035**

In-kind benefits

The Executive mayor is provided with a vehicle, driver, secretary and personal assistant at the cost of the Council.

The Chief whip is provided with a personal assistant

The Speaker is provided with secretarial support and a personal assistant

All the full time Mayoral committee members are provided with one secretary.

Members of municipal councils should be remunerated within the upper limits as determined by the Department of Cooperative Governance and Traditional Affairs. Any deviations are disclosed as irregular expenditure.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

31. Fair value adjustments

Investment property (Fair value model)	1 141 400	4 300 000
Other financial assets		
• Other financial assets (Designated as at FV through P&L)	108 452	62 237
	1 249 852	**4 362 237**

32. Depreciation and amortisation

Property, plant and equipment	96 274 403	95 213 001

33. Finance costs

Trade and other payables	123 042	31 826
Finance leases	133 258	64 700
Post employment benefit	607 465	694 541
	863 765	**791 067**

34. Debt impairment

Debt impairment	29 263 288	32 109 807
Debts impaired	763 198	-
	30 026 486	**32 109 807**

35. Auditors' remuneration

Fees	2 416 538	494 027

36. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	439 075	502 991

37. Repairs and maintenance

Buildings	897 002	529 060
Distribution networks	19 763 667	16 785 835
General	1 262 584	4 019
Office equipment, machinery and computers	609 011	574 104
Pumps and meters	1 532 019	1 650 679
Street lights, names,roads, signs and stormwaters	2 280 288	1 442 161
Vehicles	52 305	61 687
	26 396 876	**21 047 545**

38. Bulk purchases

Electricity	34 225 599	20 864 908
Water	13 563	13 377
	34 239 162	**20 878 285**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

39. Contracted services

Fleet services	7 421 026	2 969 071
Information technology services	14 217 779	4 061 845
Water tank services	5 420 448	3 969 234
Other contractors	2 382 272	103 876
Specialist services	1 167 221	1 300 683
	30 608 746	**12 404 709**

40. Grants and subsidies paid

Other subsidies		
Grant transfer (Grant used in connection with consulting services)	(3 086 322)	2 618 255

41. General expenses

Advertising	673 676	716 221
Audit committee	355 373	117 853
Auditors remuneration	2 416 538	494 027
Bank charges	487 700	356 351
Capacity building	270 057	474 708
Chemicals	3 223 006	2 253 716
Consumables	352 296	307 557
Convention bureau	1 041 882	348 200
Entertainment	615 652	339 354
Fuel and oil	48 588	100 610
Grant expenditure	1 500	4 500
Hostel charges	996 848	556 658
Insurance	2 337 214	1 100 567
Lease rentals on operating lease	1 027 645	831 666
Legal expenses	4 389 110	1 000 000
License fees	879 686	1 379 354
Magazines, books and periodicals	200 369	384 211
Motor vehicle expenses	6 766 539	5 545 278
Other expenses	7 781 542	3 330 048
Postage and courier	1 448 702	1 205 494
Printing and stationery	797 219	688 457
Stock adjustment: Water	210 335	(275 936)
Subscriptions and publications	534 203	342 579
Telephone and fax	1 450 047	1 378 441
Training	645 025	339 261
Transport and freight	4 063 418	1 633 812
Uniforms and overalls	510 650	189 328
VIP toilets not capitalised	24 290 068	27 305 378
	67 814 888	**52 447 693**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

42. Cash generated from operations

Deficit	(53 122 744)	(54 039 942)
Adjustments for:		
Depreciation and amortisation	96 274 403	95 213 001
Fair value adjustment	(1 249 852)	(4 362 237)
Finance costs - Finance leases	133 258	64 700
Debt impairment	30 026 486	32 109 807
Movements in operating lease assets and accruals	(1 878)	-
Movements in employee benefit obligations	25 561	-
Movements in provisions	7 586 515	1 616 427
Changes in working capital:		
Inventories	211 452	(87 453)
Receivables from exchange transactions	-	(41 709 094)
Other receivables from non-exchange transactions	-	(8 282)
Consumer debtors	(36 543 065)	(29 867 652)
Trade and other payables from exchange transactions	30 824 211	17 866 572
VAT	18 575 413	(16 970 975)
Taxes and transfers payable (non exchange)	-	24 413 046
Unspent conditional grants	(18 939 708)	-
	73 800 052	**24 237 918**

43. Commitments

Approved and contracted

• Capital	57 962 566	29 697 964

44. Contingent liabilities

Litigations in the process against the Municipality relating to civil claims include the following:

Grand Valley Estates (Pty) Ltd
As a Municipality, being the organ of state, non-assistance was provided to the plaintiffs in terms of a business opportunity in the form of operating a game reserve and non-assistance in terms of nature conservation protection. There are 25 defendants of which Albert Luthuli is the 8th defendant. The defendants are jointly and severally liable. The probability of the claim being successful is less than 50%. The potential liability is estimated at R667 000 000.

Simon Dolamo and Sfiso Wonderboy Maseko
An employee of the Municipality was involved in a collision with the plaintiff. The plaintiff claims negligence on the part of the defendant. The probability of the claim being successful is 50%. The potential liability is estimated at R220 000.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

44. Contingent liabilities (continued)

JM Mathebula
The plaintiff's electricity was cut-off due to non-payment and resulted in the plaintiff tampering with the connection to get access to electricity for health reasons. The probability of the claim being successful is less than 50%. The potential liability is estimated at R50 000.

Vuku Africa Consulting Engineers CC
Albert Luthuli's consultant performed a site establishment which was not part of his contract. The witnesses acting for Albert Luthuli is no longer in their employment. The probability of the claim being successful is more than 50%. The potential liability is estimated at R66 633.

Mr Magagula
As a result of electricity failure, Mr Magagula incurred damages to his property. The probability of the claim being successful is more than 50%. The potential liability is estimated at R13 648.

Morekuri Trading JV Nadumi Trading and Projects
The municipality terminated the contract due to poor performance. The plaintiff disagrees. The probability of the claim being successful is less than 50%. The potential liability is estimated at R231 307.

KSS Technologies (Pty) Ltd
The telephone system was rented from the plaintiff but there was uncertainty on the rental amounts. The probability of the claim being successful is more than 50%. The potential liability is estimated at R176 272.

LC Van Aswegen
The plaintiff's electricity was cut-off due to non-payment of the bill. The plaintiff is claiming loss of revenue. The probability of the claim being successful is less than 50%. The potential liability is estimated at R42 100.

Estate Late Finyathela Louis Nkuna
A transformer was installed on the plaintiff's site. As a result of this the plaintiff could not build on this site and was promised another site by Albert Luthuli. The probability of the claim being successful is more than 50%. The potential liability is estimated at R30 000.

Mr L Nkosi
The plaintiff's motor vehicle was damaged due to potholes. The plaintiff fixed the pothole himself due to a potential loss in revenue, had the pothole stayed unfixed. The probability of the claim being successful is 50%. The potential liability is estimated at R55 000.

Lebea and Maduna Consulting Engineering
A contractor was appointed to perform consulting work on the water project. Proposals made by the consultant to the Department of Water Affairs were not passed and hence the project was terminated. The probability of the claim being successful is less than 50%. The potential liability is estimated at R1 115 433.

45. Related parties

Refer to senior management remuneration.

46. Prior period errors

Purchases of water from the Department of Water Affairs was never captured in the financial records.

The municipality created the following reserves which is not allowed in terms of GRAP and which have been transferred to accumulated surplus:
> Government Grant Funds Reserve
> Capital Replacement Reserve

Leave accrual was overstated due to non-compliance with the South African Local Bargaining Council limiting leave days to 48 per individual.

Water inventory was not accounted for in the financial statements.

Audit fees were not classified in the correct accounting period and VAT was not claimed on these invoices.

A post retirement medical aid liability valuation was never performed for the obligation that exists for pensioners and employees that qualify for post retirement medical aid benefits.

Accruals and employee expenses are understated due to no accrual being raised for employee qualifying for long service awards.

Other financial assets and gains from changes in the fair value are understated due to the movement in the fair value of the shares not accounted for.

Provision for bad debts was not calculated as per the requirements of IAS 39. This have been corrected.

SALGA membership fees were not accounted for in the correct accounting period. Thus have been corrected.

Property leased assets were not straight-lined as required by GRAP 13. This have been corrected.

Office equipment leased was incorrectly treated as an operating lease instead of a finance lease. This have been corrected.

Consumables inventory were overstated. This have been corrected.

Various errors were found under PPE as follow:
> Land and buildings:
Certain land were not taken into account in the asset register, subsequently they were recognised using the valuation roll. Movements of sale of land was not accounted for, thereafter they had to be recognised retrospectively. Certain Land and buildings were errornously disclosed under Infrastructure work in progress, thereafter proper allocation was made. Inclusive of Land and buildings were Investment properties, subsequently proper allocation had to be made.

>Investment property:
Inclusive of Land and buildings were Investment properties, subsequently proper allocation had to be made. Certain amounts were subsequently adjustments were made to provide for this. Investement properties were not taken into account, subsequently they were included using the fair value model.

>Infrastructure:
Costs of some of the Infrastructure assets were shown as negative in the asset register, these amounts were as a result of an error in the formula used in the asset register, subsequently the negative amounts were adjusted, affecting cost of assets and the accumulated depreciation on those Assets, therefore journals were processed to account for those differences. Certain expenses were errornously shown as Infrastructure assets, subsequently these amounts were allocated to the relavant expense accounts. Certain amounts of Infrastructure which had been erronously disclosed as completed, had to be adjusted to Work in progress. Certain amounts of land and buildings were errornously disclosed under Infrastructure work in progress, thereafter proper allocation was made. Assets received as donation had not been accounted for, subsequently information was consolidated and journals processed to provide for this.

>Other assets:
Accumulated depreciation was overstated for some assets, subsequently these were adjusted and accounted for.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

46. Prior period errors (continued)
>Leased assets:
Finance leased assets were not accounted for in the asset register, subsequently these were included in the asset register, journals affecting these were processed.

The comparative statements for 2010/11 have been restated. The effect of the restatement is summarised below:

Statement of financial position		
Increase in accruals / trade payables	-	(592 619)
Increase in VAT receivable	-	1 940 375
Increase in accumulated surplus	-	(239 411 518)
Decrease in government grant reserve	-	24 851 697
Decrease in capital replacement reserve	-	21 077 690
Increase in provision for bad debts	-	(2 242 155)
Increase in opering lease asset	-	32 149
Increase in finance lease asset	-	344 715
Inrease in accumulated depreciation	-	(2 040 480)
Increase finance lease liability	-	(95 228)
Increase in water inventory	-	275 936
Increse in community assets	-	14 396 980
Increase in other debtors	-	708 524
Increase in retirement benefit obligation	-	(10 580 607)
Increase in landfill site	-	2 109 480
Increase in other financial assets	-	62 238
Increase in infrastructure assets	-	178 534 856
Increase in investment properties	-	12 023 600
Increase in land	-	2 592 100
Decrease in leave provision	-	115 335
Increase in buildings	-	15 291 594
Increase in other assets	-	5 537
Increase in revaluation surplus	-	(6 234 263)
Decrease in consumables inventory	-	(21 253)

Statement of Financial Performance		
Increase in water purchases	-	13 377
Decrease in leave pay	-	(115 335)
Increase in consumables	-	21 253
Increase in stock adjustment: Water	-	(275 936)
Decrease in audit fees	-	(191 895)
Decrease in insurance premiums	-	(28 080)
Increase in service costs	-	45 809
Decrease in medical aid company contributions	-	(613 593)
Increase in interest charges	-	694 541
Increase in long service awards	-	104 609
Increase in gain on fair value of financial assets	-	(62 238)
Increase in debt impairment	-	2 242 155
Increase in fair value adjustment on investment property	-	(4 300 000)
Decrease in rentals received	-	(6 218)
Increase in finance charges on finance lease	-	79 618
Decrease in depreciation	-	(12 877)
Decrease in donations	-	(6 694 638)
Increase in repairs and maintenance	-	859 741
Increase in membership fees	-	378 365
Decrease in proceeds from sale of land	-	312 059
Decrease in rental costs	-	(87 768)
Increase in VIP toilets not capitalised	-	533 634

Figures in Rand	2012	2011

47. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

Statement of financial position		
Provisions - 13th cheque	-	1 233 053
Trade payables	-	(1 233 053)
Cash and cash equivalents	-	(32 547 690)
Other financial assets	-	32 547 690
Statement of Financial Performance		
General expenses	-	(811 353)
Income foregone	-	811 353

48. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Liquidity risk is the risk that the municipality will not be able to meet its financial obligations as they fall due. The municipality's approach to managing liquidity is to ensure as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unauthorised expenditure. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities. The municipality has not defaulted on external loans, payables and lease commitment payments being either interest or capital and no re-negotiation of terms were made on any of these instruments.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2012	2011
Financial instruments at fair value	473 402	364 949
Financial instruments at amortised cost	13 804 860	32 547 549

49. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

49. Going concern (continued)

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

50. Events after the reporting date

No significant events after the reporting date have been identified.

51. Fruitless and wasteful expenditure

Eskom	39 434	16 015
SARS - interest and penalties	19 923	-
Suppliers	614 798	-
	674 155	**16 015**

The fruitless and wasteful expenditure relates to interest on Eskom, Telkom and Auditor general overdue accounts.Included in fruitless and wasteful expenditure are VAT paid to suppliers who's invoices did not comply with the SARS requirements.

52. Irregular expenditure

Opening balance	7 911 870	-
Add: Irregular Expenditure - current year	54 954 885	7 911 870
	62 866 755	**7 911 870**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Over-payment of councillors as a result of overpayments of upper limits to councillors as determined by Remuneration of Public Office Bearers Act no 20 of 1998	To be recovered from Councillors	33 384

Details of irregular expenditure recoverable (not condoned)

Supply Chain Management related expenditure	54 954 885

53. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net deficit per the statement of financial performance	(53 122 744)	(54 039 942)
Adjusted for:		
Impairments recognised / reversed	(29 263 288)	(29 867 652)
Expenditure savings / additional revenue	(1 012 550)	90 662 743
Net (deficit) surplus per approved budget	**(83 398 582)**	**6 755 149**

54. Additional disclosure in terms of Municipal Finance Management Act

PAYE and UIF

Opening balance	824 006	-
Current year expense	10 338 115	9 294 048
Amount paid - current year	(9 559 659)	(8 470 042)
Amount paid - previous years	(824 006)	-
	778 456	**824 006**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

54. Additional disclosure in terms of Municipal Finance Management Act (continued)

Audit fees

Opening balance	13 696	-
Current year expense	2 755 071	595 017
Amount paid - current year	(2 570 735)	(581 321)
Amount paid - previous years	(13 696)	-
	184 336	**13 696**

In the 30 June 2011 financial statements the opening balance of R0, current year expense of R685 922, amount paid - current year of R685 922 and the closing balance of R0 have been corrected.

Contributions to SALGA

Opening balance	378 365	424 944
Current year expense	187 162	398 997
Amount paid - current year	(31 500)	(20 632)
Amount paid - previous year	(378 365)	(424 944)
	155 662	**378 365**

In the 30 June 2011 financial statements the opening balance of R0, current year expense of R19 429, amount paid - current year of R19 429, amount paid-previous year of R0 and the closing balance of R0 have been corrected.

Pension and medical aid deductions

Opening balance	1 107 988	-
Current year expense	20 116 503	18 299 264
Amount paid - current year	(18 347 910)	(17 191 276)
Amount paid - previous years	(1 107 988)	-
	1 768 593	**1 107 988**

In the 30 June 2011 financial statements the opening balance of R0, current year expense of R11 878 479, amount paid - current year of R11 878 479, amount paid-previous year of R0 and the closing balance of R0 have been corrected.

VAT

VAT receivable	335 938	18 911 351

54. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2012:

30 June 2012	Outstanding less than 90 days	Outstanding more than 90 days	Total
Cindi NR	-	3 854	3 854
Mhlangu PP	-	2 904	2 904
Ngubeni A	-	2 334	2 334
Nkosi MH	-	2 588	2 588
Nkosi MJ	-	4 298	4 298
Nkosi NM	-	3 854	3 854
Ntuli FJ	-	654	654
Vilakazi J	-	2 836	2 836
Vilakazi W	-	2 916	2 916
	-	**26 238**	**26 238**

30 June 2011	Outstanding less than 90 days	Outstanding more than 90 days	Total
Malaza SI	-	4 822	4 822
Ntuli FJ	-	1 129	1 129
Vilakazi RG	-	4 170	4 170
	-	**10 121**	**10 121**

55. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix A for the comparison of actual operating expenditure versus budgeted expenditure.

56. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix B for the comparison of actual capital expenditure versus budgeted expenditure.